

Message Text

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ACTION AF-06

INFO OCT-01 ISO-00 ARA-06 EA-06 EUR-12 NEA-09 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 /113 W

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R 141543Z APR 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8803

INFO AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

AMEMBASSY THE HAGUE

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E.O.: 11652: N/A

TAGS: ENRG, NI

SUBJ: SETTLEMENT WITH OIL COMPANIES REDUCES GOVERNMENT REVENUE

REF: LAGOS 03024

1. SUMMARY: SEPARATE MEETINGS WITH SHELL-BP, GULF, AND MOBIL
HAVE RESULTED IN TAX, ROYALTY, AND BUY-BACK TERMS WHICH ARE
CONSIDERABLY DIFFERENT FROM THOSE DEMANDED BY FMG A MONTH AGO
(LAGOS 02457). GOVERNMENT HAS AGREED TO ALLOW THE PRODUCING
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COMPANIES A HYPOTHETICAL AVERAG MARGIN OF FORTY RPT FORTY

CENTS PER BARREL. THIS IS LESS THAN DECEMBER 1974 MARGIN OF ABOUT SIXTY CENTS PER BARREL BUT CONSIDERABLY BETTER THAN THE THE 16 OR 22 CENTS WHICH FMG SOUGHT TO IMPOSE IN OPENING 1975 DISCUSSIONS. THE GOVERNMENT HAS ALSO REDUCED THE BUY-BACK AND DIRECT SALE PRICES FROM \$12.02 TO \$11.60 PER BARREL, ADOPTED MORE REALISTIC ESTIMATES OF AVERAGE PRODUCTION COSTS, AND REDUCED DIFFERENTIALS FOR GRAVITY. RESULT IS WEIGHTED AVERAGE GOVERNMENT TAKE OF \$10.56 PER BARREL, DOWN ABOUT 44 CENTS FROM NEIGHBORHOOD OF \$11.00 AND END OF 1974. END SUMMARY.

2. AS REPORTED LAGOS 02457 AND SUBSEQUENT MESSAGES (NOTAL) PRODUCING COMPANIES HAVE BEEN FEARING THAT 1975 TERMS DEMANDED BY FMG WERE SO SEVERE THAT THEY WOULD BE PUSHED INTO NATIONALIZATION. HOWEVER, IN LAST TWO WEEKS, THE GOVERNMENT PROVED WILLING HOLD SEPARATE TALKS WITH EACH OF THE "BIG THREE" COMPANIES, AND THE GOVERNMENT'S "FINAL TERMS" AS PRESENTED TO THE COMPANIES LAST WEEK ARE CONSIDERABLY LESS ONEROUS. ALL THAT NOW REMAINS IS FOR THE COMPANY HEADQUARTERS TO COMMUNICATE THEIR REACTIONS AND FOR THE GOVERNMENT TO PROMULGATE THE TERMS.

3. ELEMENTS OF THE "COMPROMISE" INCLUDE DIFFERENTIATION BETWEEN FIRST AND SECOND QUARTERS OF 1975 AND POSTPONEMENT OF ANY DECISION REGARDING THIRD QUARTER. THE GOVERNMENT'S FIRST AND FINAL POSITIONS ARE SHOWN BELOW TOGETHER WITH THE ANALYSIS THE COMPANIES AND GOVERNMENT USED IN THEIR MEETINGS (ALL FIGURES IN U.S. DOLLARS PER BARREL EXCEPT PERCENTAGES AS INDICATED):

GOVERNMENT'S
FIRST POSITION

(LAGOS 02457)

(PIW 3/10/75) GOVERNMENT'S FINAL POSITION

| | FIRST DEC. 1974 | FIRST 9-MOS. 1975 | FIRST DEC. 1974 | SECOND QUARTER 1975 | SECOND QUARTER 1975 |
|------------------------|--------------------|-------------------------|--------------------|---------------------------|---------------------------|
| AV. PRODUCTION COSTS | .40 | .40 | .57 | .64 | .64 |
| BUY-BACK PRICE | 12.02 | 11.78 | 12.02 | 11.65 | 11.60 |
| POSTED PRICE | 14.691 | 12.914 | 14.691 | 14.691 | 12.063 |
| ROYALTY RATE (PERCENT) | 16-2/3 | 20 | 16-2/3 | 16-2/3 | 20 |

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| | | | | | |
|------------------------|--------|--------|--------|--------|--------|
| TAX RATE (PERCENT) | 65.75 | 85 | 65.75 | 65.75 | 85 |
| ROYALTY | 2.449 | 2.583 | 2.449 | 2.449 | 2.413 |
| TAX | 7.786 | 8.441 | 7.675 | 7.629 | 7.659 |
| GOVT.TAKE,EQUITY OIL | 10.235 | 11.024 | 10.124 | 10.078 | 10.072 |
| CO.MARGIN,EQUITY OIL | 1.385 | .356 | 1.326 | .932 | .888 |
| GOVT.TAKE,GOVT. OIL | 11.62 | 11.38 | 11.45 | 11.01 | 10.96 |
| WEIGHTED AV.GOVT.TAKE | 10.997 | 11.220 | 10.853 | 10.591 | 10.560 |
| AVERAGE COMPANY MARGIN | .623 | .160 | .597 | .419 | .400 |

PERCENT FOR GOVERNMENT 94.6 98.6 94.8 96.2 96.4
PERCENT FOR COMPANIES 5.4 1.4 5.2 3.8 3.6

4. AS SHOWN ABOVE, FMG HAS OBTAINED WHAT IT WANTED MOST ---
"STANDARD" 20 PERCENT ROYALTY AND 85 PERCENT TAX RATE -- EFFECTIVE
APRIL 1, AND PRODUCING COMPANIES WERE CONCEDED 40 CENT MARGIN
(I.E. DIFFERENCE BETWEEN WEIGHTED AVERAGE TAX-PAID COST AND
THE GOVERNMENT'S BUY-BACK AND DIRECT SALE PRICE, ASSUMING
PRODUCING COMPANY BUYS BACK ALL OF THE GOVERNMENT'S
55 PERCENT SHARE OF TOTAL OIL EXPORTED). THIS IS LESS THAN
DECEMBER 1974 COMPANY MARGIN OF ABOUT SIXTY CENTS BUT
CONSIDERABLY BETTER THAN THE 16 OR 22 CENTS WHICH THE FMG
ORIGINALLY DEMANDED.

5. THE COMPANIES PERSUADED THE FMG TO ABANDON USE OF
UNREALISTIC LOW FORTY CENT ESTIMATE OF AVERAGE PRODUCTION COSTS.
AFTER AUDIT OF COMPANY RECORDS, FMG DETERMINED THAT AVERAGE
COSTS IN 1974 WERE \$.57 BARREL, AND THIS WAS INCREASED BY
AN ASSUMED INFLATION RATE OF 12 PERCENT TO \$.64 FOR USE IN ALL
1975 COMPUTATIONS.

6. BUY-BACK PRICE PUT ALL \$11.60 PER BARREL FOR SECOND QUARTER
(VS. \$12.02 IN DECEMBER) IN RECOGNITION OF DECREASED MARKET
PRICE FOR NIGERIAN CRUDE. NIGERIAN NATIONAL OIL CORPORATION
(NNOC) IS PRESUMABLY PREPARED TO EXTEND THIS PRICE TO CURRENT
DIRECT SALE CUSTOMERS (TENNECO, GELSENBERG, SHELL-US, CITIES
SERVICE, AND CROWN CENTRAL) AND ANY NEW PURCHASERS OF
GOVERNMENT OIL.

7. POSTED PRICE CHANGED FOR FIRST TIME IN FIFTEEN MONTHS. NEW
VALUE HAD TO BE \$12.063 PER BARREL IN ORDER IMPLEMENT 85-20
TAX AND ROYALTY REGIME, ALLOW COMPANY MARGIN OF FORTY CENTS,
PERMIT NEW BUY-BACK PRICE, AND ACCEPT MORE REALISTIC ESTIMATE
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OF PRODUCTION COSTS.

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8. GOVERNMENT WAS ALSO PERSUADED TO MODIFY SYSTEM OF DIFFERENTIALS FOR CRUDE WHICH IS LIGHTER THAN STANDARD GRAVITY OF 34 DEGREES A.P.I. (EMBASSY CANNOT CONFIRM IF DIFFERENTIALS FOR HEAVIER CRUDE ALSO CHANGED). EFFECTIVE JANUARY 1, POSTED PRICE IS INCREASED THREE CENTS AND BUY-BACK PRICE INCREASED ONE AND ONE HALF CENTS FOR EACH DEGREE ABOVE 34 TO MAXIMUM OF 36.99. IN OTHER WORDS, ALL CRUDES OF 36 DEGREES AND ABOVE HAVE SAME GRAVITY DIFFERENTIAL. THIS CHANGE FAVORS PRODUCERS OF LIGHT CRUDE, I.E. MOBIL (37 DEGREES) AND AGIP/PHILLIPS (40 DEGREES).

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9. EFFECT OF ALL THE FOREGOING CHANGES IS TO REDUCE ESTIMATES OF WEIGHTED AVERAGE GOVERNMENT TAKE FROM \$11.00 PER BARREL EXPORTED AS RECENTLY AS DECEMBER 1974 TO \$10.56 PER BARREL IN SECOND QUARTER OF 1975. THIS REPRESENTS CONSIDERABLE COM-DOWN FROM FMG'S POSITION OF A MONTH AGO WHEN GOVERNMENT NEGOTIATORS SOUGHT TO INCREASE GOVERNMENT TAKE TO \$11.22. ALSO CONSIDERING REDUCED PRODUCTION (SEPTELS), FMG OIL REVENUE NOW RUN-

NING CONSIDERABLE LESS THAN LAST YEAR. IF EXPORTS AVERAGE TWO MILLION BARRELS PER DAY FOR ALL OF 1975 (A HIGHTER LEVEL THAN AT PRESENT) AND GOVERNMENT TAKE OF \$10.56 IS SUSTAINED, OIL REVENUE WOULD BE \$7.7 BILLION FOR 1975 COMPARED TO \$8.4 BILLION IN 1974.

10. COMMENT: AS SHOWN IN PAR 3, THE NEW TERMS REPRESENT A 96-4 SPLIT OF THE PROFITS FROM NIGERIAN OIL BETWEEN THE GOVERNMENT AND PRODUCING COMPANIES (VS. A 95-5 SPLIT IN DECEMBER 1974 AND 99-1 SPLIT ORIGINALLY DEMANDED BY THE FMG). THE EMBASSY DOES NOT KNOW IF THIS GIVES THE COMPANIES ENOUGH TO MAINTAIN THEIR LEVEL OF INVESTMENT IN NIGERIA, BUT IT APPEARS TO BE. AT LEAST THE LOCAL REPRESENTATIVES HAVE STOPPED TALKING ABOUT PULLING OUT. SINCE THE COMPANIES BEAR THE COMMERCIAL RISK, ACTUAL PROFITS MAY BE MORE OR LESS THAN THE HYPOTHETICAL FORTY CENT MARGIN ALLOWED BY THE FMG. IN FACT THE PRODUCING COMPANIES' MARGIN WOULD INCREASE AS THE AMOUNT TO GOVERNMENT OIL SOLD BY NNOC INCREASES AND THE AMOUNT OF BUY-BACK OIL DECREASES. WITH NNOC CURRENTLY SELLING AS MUCH AS TEN PERCENT OF TOTAL EXPORTS, THE PRODUCING COMPANIES MARKET ONLY ABOUT 90 PERCENT OF THE OIL, BUT IT COSTS THEM AN AVERAGE OF 44.4 CENTS LESS THAN THE BUY-BACK PRICE RATHER THAN 40 CENTS. (PARA 4 ABOVE).
CROSBY

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